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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

NOV 29 2006

SEC FILE NUMBER

8-42883

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 10/01/2005 AND ENDING 9/30/2006
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Buttonwood Partners, Inc.

OFFICIAL USE ONLY

FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

701 Deming Way

(No. and Street)

Madison

(City)

WI

(State)

53717

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Robert Anderson

(608) 827 - 6400

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

McGladrey & Pullen, LLP

(Name - if individual, state last, first, middle name)

191 N. Wacker Dr., Ste. 1400 Chicago

(Address)

(City)

IL

(State)

60606

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

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THOMSON
FINANCIAL

FOR OFFICIAL USE ONLY

* Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)


SEC 1410 (06-02)

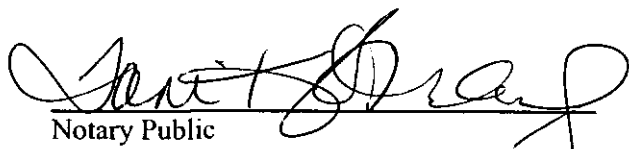
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OATH OR AFFIRMATION

I, **Robert Anderson**, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of **Buttonwood Partners, Inc.**, as of **September 30, 2006**, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer.


Signature


Title


Notary Public

My commission expires

May 16th, 2010

This report ** contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Cash Flows.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☐ (o) Independent Auditor's Report on Internal Control

****For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

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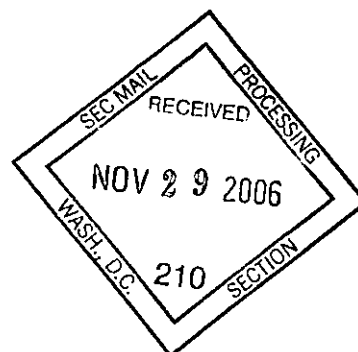
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McGladrey & Pullen

Certified Public Accountants

Buttonwood Partners, Inc.

Statement of Financial Condition Report
September 30, 2006



Filed as PUBLIC information pursuant to rule 17a-5(d) under the Securities Exchange Act of 1934.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Buttonwood Partners, Inc.
Madison, Wisconsin

We have audited the accompanying statement of financial condition of Buttonwood Partners, Inc. (the "Company") as of September 30, 2006, that you are filing pursuant to rule 17a-5 of the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Buttonwood Partners, Inc. as of September 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Chicago, Illinois
October 20, 2006

Buttonwood Partners, Inc.

Statement of Financial Condition

September 30, 2006

Assets

Cash and cash equivalents	\$	169,823
Commissions receivable		89,500
Shareholder receivable		24,878
Deposit with clearing broker-dealer		50,000
Furniture and equipment, net		<u>102,275</u>
	\$	<u>436,476</u>

Liabilities and Stockholders' Equity

Liabilities

Accounts payable, accrued expenses and other liabilities	\$	25,558
Accrued salaries and benefits		112,086
Deferred income tax liability		<u>12,000</u>
		<u>149,644</u>

Commitments and Contingencies (Notes 5 and 6)

Stockholders' Equity

Common stock, \$1 par value; 56,000 shares authorized; 1,800 shares issued and outstanding		1,800
Additional paid-in capital		178,200
Retained earnings		<u>106,832</u>
		<u>286,832</u>
	\$	<u>436,476</u>

See Notes to Statement of Financial Condition

Buttonwood Partners, Inc.

Notes to Statement of Financial Condition

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Buttonwood Partners, Inc. (Company) is a Wisconsin corporation formed on March 7, 1990, for the purpose of conducting business as a broker/dealer in securities. The Company has an office in Madison, Wisconsin and serves primarily individual customers in the Midwest.

The Company operates under the provisions of Paragraph (k)(2)(ii) of rule 15c3-3 of the Securities and Exchange Commission and, accordingly, is exempt from the remaining provisions of rule 15c3-3. Essentially, the requirements of paragraph (k)(2)(ii) provide that the Company clear all transactions on behalf of customers on a fully-disclosed basis with a clearing broker/dealer and promptly transmit all customer funds and securities to the clearing broker/dealer. The clearing broker/dealer carries all of the accounts of the customers and maintains and preserves all related books and records as are customarily kept by a clearing broker/dealer.

A summary of the Company's significant accounting policies follows:

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: Cash and cash equivalents include interest-bearing demand deposits with banks and money market instruments. The Company maintains deposits with high quality financial institutions in amounts in excess of federally insured limits; however, the Company does not believe it is exposed to any significant credit risk.

Revenue recognition: Commission revenue and related expenses arising from securities transactions are recorded on a settlement-date basis. While generally accepted accounting principles require the use of trade date accounting, it has been determined that the difference created by using settlement date is not material to the financial statements.

Furniture and equipment: Furniture and equipment is stated at cost, net of accumulated depreciation. Depreciation is computed principally by the straight-line method over the useful lives of the assets.

Income taxes: Deferred income taxes reflect the impact of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered.

Recent accounting pronouncements: In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS 157, among other things, defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS 157 is effective for the Company on October 1, 2008. Management is currently evaluating the provisions of SFAS 157 and its potential effect on its financial statements.

In June 2006, the FASB issued FASB interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold that a tax position must meet to be recognized in the financial statements. FIN 48 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company must adopt FIN 48 on October 1, 2007. Management is currently evaluating FIN 48 and its potential effect on its financial statements.

Buttonwood Partners, Inc.

Notes to Statement of Financial Condition

Note 2. Deposit with Clearing Broker/Dealer

At September 30, 2006, the Company had a deposit in the amount of \$50,000 with its clearing broker, National Financial Services, LLC (NFS). The Company is dependent on NFS for the everyday processing of customer transactions as required under the provisions of paragraph (k)(2)(ii) of rule 15c3-3 of the Securities and Exchange Commission.

Note 3. Furniture and Equipment

Furniture and equipment consisted of the following at September 30, 2006:

Furniture and fixtures	\$	31,781
Office equipment		369,379
Artwork		9,118
		<u>410,278</u>
Less accumulated depreciation		<u>308,003</u>
	\$	<u>102,275</u>

Note 4. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission uniform net capital rule (rule 15c3-1), which requires the maintenance of a minimum amount of net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Rule 15c3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. The Company had net capital, net capital requirements, and a net capital ratio of the following at September 30, 2006:

Net capital	\$	158,888
Net capital requirements		50,000
Net capital ratio		0.87 to 1

Note 5. Commitments

The Company leases its Madison, Wisconsin office space under an operating lease that expires May 14, 2009. The future minimum lease payments are as follows:

Years Ending September 30,		
2007	\$	111,375
2008		114,716
2009		<u>68,074</u>
	\$	<u>294,165</u>

Buttonwood Partners, Inc.

Notes to Statement of Financial Condition

Note 6. Off-Balance-Sheet Risk and Concentration of Credit Risk

The Company's customers' securities transactions are introduced on a fully-disclosed basis to its clearing broker/dealer. The clearing broker/dealer carries all of the accounts of the customers of the Company and is responsible for execution, collection and payment of funds and receipt and delivery of securities relative to customer transactions. Off-balance-sheet risk exists with respect to these transactions due to the possibility that customers may be unable to fulfill their contractual commitments wherein the clearing broker/dealer may charge any losses it incurs to the Company. The Company seeks to minimize this risk through procedures designed to monitor the credit worthiness of its customers and that customer transactions are executed properly by the clearing broker/dealer.

Note 7. Employee Benefit Plan

The Company provides a Simplified Employee Pension Plan (the Plan) with a salary reduction option for its employees. Under the Plan, employees must be at least 21 years of age and have worked for the Company for at least one year to be eligible to participate. Each eligible employee may defer 100% of their compensation, not to exceed the annual exclusion limit. The Company makes a nondiscretionary contribution of 6% of each eligible employee's compensation.

Note 8. Income Taxes

At September 30, 2006, the net deferred income tax liability in the amount of \$12,000 relates primarily to temporary differences from depreciation of furniture and equipment.